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25 October 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

DEVELOPMENTS IN POLAND AND HUNGARY Page 1

Assumption of power by Wladyslaw Gomulka in Poland apparently has satisfied popular pressures, at least for the time being, for greater internal freedom and a course more independent of Soviet dictation. In Hungary, the popular movement for an easing of controls got out of hand, and the last-minute decision by the regime to name Imre Nagy premier was too late to stop a violent outbreak of anti-Soviet rioting which developed into an anti-Communist uprising. The regime has called in Soviet forces in an effort to establish order.

The Soviet Union may yet react to these developments by attempting to reinstall regimes completely subservient to Moscow. If the present trend continues, however, Poland and Hungary may achieve a semi-independent status within the Communist world, allied to the USSR but not bound automatically to accommodate to Soviet demands.

[REDACTED]

VIOLENCE IN NORTH AFRICA FOLLOWS
FRENCH CAPTURE OF REBEL LEADERS Page 8

France's capture on 22 October of five Algerian nationalist leaders has made the French position throughout North Africa more difficult and has further reduced chances for an Algerian settlement. Popular reaction in Tunisia and Morocco has been violent. The moderate, pro-Western policies of the Moroccan and Tunisian governments are likely to undergo some revision as the sultan and Premier Bourghiba become more responsive to the demands of the extremist groups, which have close ties with Cairo and the Arab League.

[REDACTED]

SUEZ DEVELOPMENTS Page 9

Britain and France doubt that the Suez Canal Users' Association will be an effective device for pressure on Egypt. They still insist that Egypt should produce new proposals as a basis for resumed talks, while Egypt wants talks to begin before submitting new proposals. In France, there is a general realization that Algeria is the primary problem at this time.

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ARAB-ISRAELI SITUATION Page 10

New incidents occurred last week along Israel's borders with Egypt and Lebanon, while the situation remained tense along the Israeli-Jordanian frontier. Apprehension in Tel Aviv over possible future developments has been reflected in the gradual mobilization of Israel's military reserves. [REDACTED]

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PART II

NOTES AND COMMENTS

JORDAN'S LOWER HOUSE ELECTIONS Page 1

The elections for Jordan's 40-seat lower house on 21 October strengthened the position of extreme nationalists, particularly on the left. Anti-Western candidates captured more than half of the seats. The majority of those elected advocate abrogation or modification of the Anglo-Jordanian treaty. Cairo has claimed that the result testifies to the popularity of Egyptian policy, but Nasr's gain cannot be assessed until a new government is formed and starts to carry out a program. [REDACTED]

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STRESSES IN MOLLET COALITION Page 2

Developments in Algeria assure Premier Mollet overwhelming non-Communist support for the present. Divergences are apparent, however, among the Socialists, Radical Socialists and ex-Gaullist Social Republicans, who comprise the French government coalition. [REDACTED]

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RATIFICATION OF MOSCOW AGREEMENT ASSURED IN JAPAN Page 4

The Japanese Diet appears certain to ratify the agreements Prime Minister Hatoyama reached at Moscow when it meets in a special session tentatively scheduled for mid-November. Normalization of relations with the USSR will be followed by a reopening of diplomatic ties with the European Satellites and by increased pressure within Japan for relations with Communist China. [REDACTED]

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SINGAPORE Page 4

The drive against Communist subversion appears less successful than local government officials have claimed. The government's action against Chinese schools is viewed by the 800,000 Chinese in the colony as an attack on Chinese education and culture, and opinion among them has tended to veer against the government. [REDACTED]

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PROSPECTS FOR THE NEW HONDURAN JUNTA Page 5

The junta which seized the Honduran government on 21 October consolidated its position quickly, and no immediate challenge to its authority is expected. The new authorities have promised to transfer power "after a short time" to a democratic constitutional government. The junta is aware, however, that a free election would probably mean victory for the Liberal Party, which may have been infiltrated by Communists. [REDACTED]

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MOUNTING POLITICAL TENSION IN BOLIVIA Page 6

Mounting tension between the right and left wings of the governing Nationalist Revolutionary Movement in Bolivia reportedly caused the riots of 22 September. Left-wing support, essential for an improvement of economic conditions, may be weakened as a result of these developments. [REDACTED]

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ITALIAN CHRISTIAN DEMOCRATIC PARTY CONGRESS Page 7

The Christian Democratic Party in Italy ended its recent national congress by confirming its support for the present center coalition and reaffirming its position that the Nenni Socialists are not acceptable partners unless they break completely with the Communists. [REDACTED]

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THE CYPRUS ISSUE AND GREEK POLITICS Page 8

Prime Minister Karamanlis' decision to head the Greek delegation at the UN General Assembly next month indicates he is confident of a favorable assembly decision on Cyprus. He also seems convinced that his government can maintain its political position despite the recent increase in opposition activities. [REDACTED]

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SPAIN Page 8

The Spanish Falange is making a determined effort to attract broader popular support and to assure itself a predominant position in Spain when Generalissimo Franco dies or withdraws from office for other reasons. [REDACTED]

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MORE PHILIPPINE HUKS
RELEASED ON BAIL Page 9

The Philippine government's anti-Communist campaign suffered a further setback last week when a provincial court released some 43 former Huk rebels on bail, a decision based on a precedent set by the Supreme Court last July. The release of additional prisoners would be unlikely to revive the Huk rebellion, but would probably enhance Communist capabilities for subversive action.

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[REDACTED]

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COMMUNIST CHINA REINTRODUCES
TEACHING OF ENGLISH Page 11

Peiping's announcement that English will be taught this year in some senior middle schools follows a six-year period in which Russian was the only language taught below the university level. The new emphasis on English comes at a time when Chinese are being urged to acquire knowledge from all sources in order to raise China's scientific competence. [REDACTED]

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REVIEW OF CHINA TRADE CONTROLS
SCHEDULED FOR DECEMBER Page 12

A full review of China trade controls by the Consultative Group is scheduled for December. Although the British COCOM delegate hinted about 12 October that his government favored postponement, a Foreign Office spokesman on 15 October gave no indication that Britain wanted such a delay. [REDACTED]

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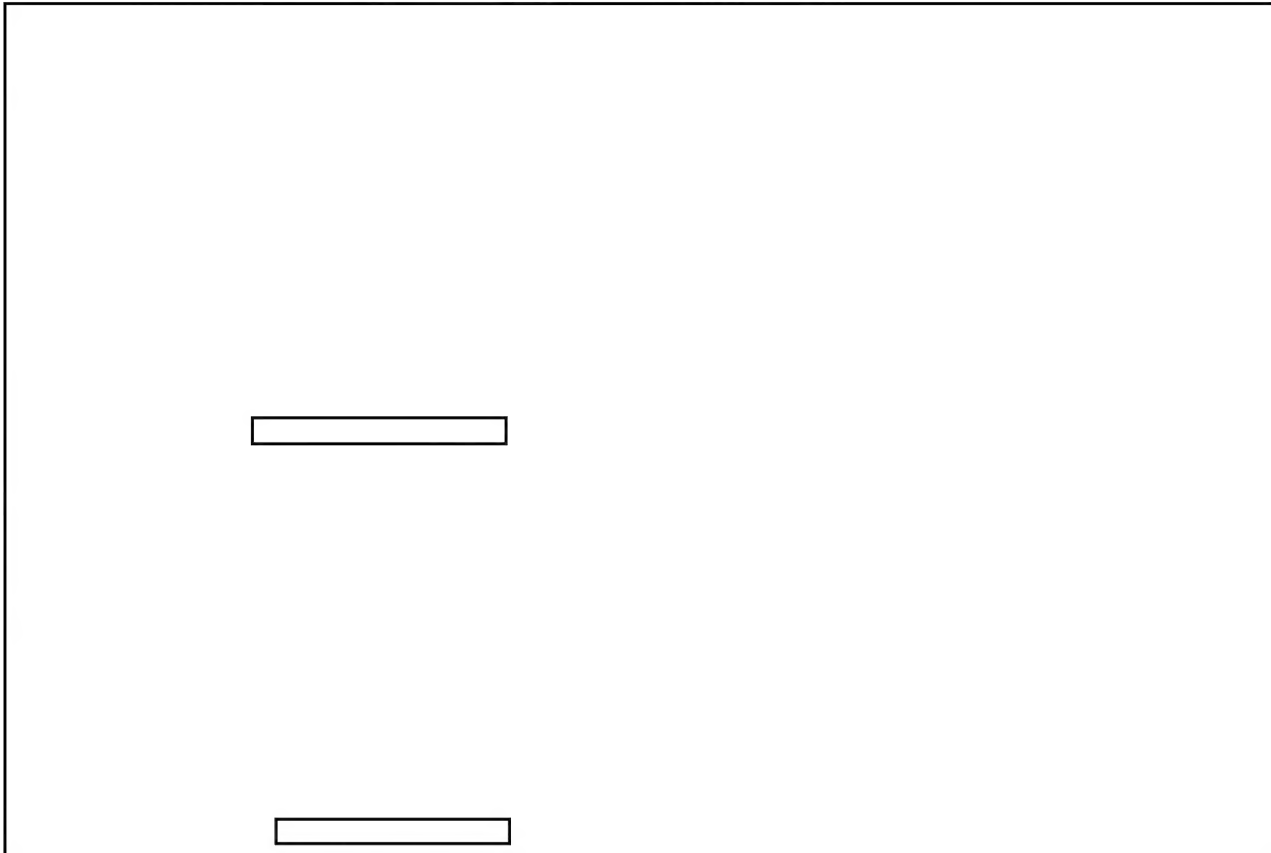
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PART III

PATTERNS AND PERSPECTIVES

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THE ECONOMIC SITUATION IN CEYLON Page 5

The government of Ceylon, which last spring announced that it favored a socialist economic policy, has since found it necessary to adopt a much more moderate program. In the next few months, it may have to choose between facing heavy opposition criticism, mainly from the left, for not carrying out its promises, or attempting to do so and incurring considerable economic and financial risks. [redacted]



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PART I

OF IMMEDIATE INTERESTDEVELOPMENTS IN POLAND
AND HUNGARY

Assumption of power by Wladyslaw Gomulka in Poland apparently has satisfied popular pressures, at least for the time being, for greater internal freedom and a course more independent of Soviet dictation. In Hungary, the popular movement for an easing of controls got out of hand, and the last-minute decision by the regime to name Imre Nagy premier was too late to stop a violent outbreak of anti-Soviet rioting which developed into an anti-Communist uprising. The regime has called in Soviet forces in an effort to establish order.

The Soviet Union may yet react to these developments by attempting to reinstall regimes completely subservient to Moscow. If the present trend continues, however, Poland and Hungary may achieve a semi-independent status within the Communist world, allied to the USSR but not bound automatically to accommodate to Soviet demands.

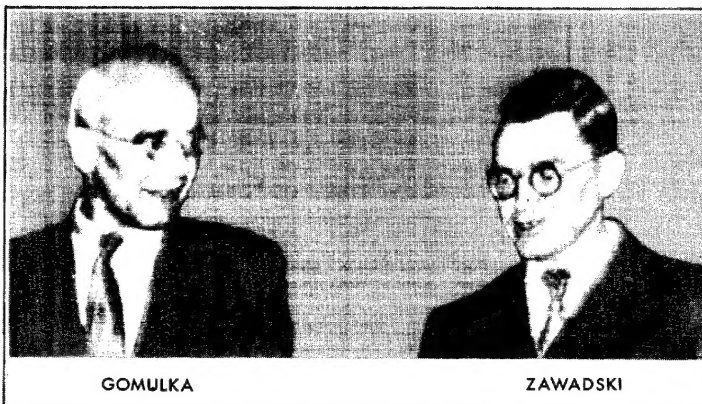
Gomulka's Policies

The speech Gomulka delivered to the plenum of the central committee on 20 October clearly indicates that he intends to follow a course independent of the Kremlin.

Although he reaffirmed Polish friendship with the USSR and solidarity

with the Socialist countries, he insisted that future relations must be based on Soviet respect for the "full independence and freedom" of Poland. He stated that the liberalization campaign should be broadened, and he advocated a number of political and economic changes, including increased power for the Sejm (parliament), the right of the people to elect, not merely to vote for members, a halt to involuntary collectivization in agriculture, eventual abolition of compulsory agricultural deliveries, and increased freedom for craftsmen.

Gomulka warned, however, that because of past mistakes, it will not be possible to grant any substantial wage increases in the near future. He also stated that there must be limits to free criticism, and that the ardor of youth, while welcome, must be directed along paths outlined by the party.



GOMULKA

ZAWADSKI

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New Leadership

Khrushchev and his cohorts during their visit to Warsaw brought intense pressure to bear on the Polish leaders to retain Soviet marshal Konstanty Rokossowski on the Polish politburo. Despite this, Rokossowski and six other members, the majority of them pro-Soviet, were not named to the new politburo elected on 21 October. Among those demoted were Zenon Nowak and Franciszek Mazur, leading members of the pro-Soviet faction, and Franciszek Joswiak-Witold, who rose to the politburo on the basis of his prosecution of Gomulka in 1948.

Besides Gomulka, three new members were added to the politburo, all of them nationalist-oriented Communists: Ignacy Loga-Sowinski, purged with Gomulka in 1948, Jerzy Morawski, a former editor of the Polish Communist newspaper Trybuna Ludu, and Stefan Jedrychowski, an economic expert. Edward Ochab, who was replaced as first secretary by Gomulka, reportedly supported Gomulka in the crisis with the USSR and appears to remain one of the key leaders.

Popular Support

Rallies have been held throughout Poland, especially by youth groups and workers, to demonstrate popular support for Gomulka's defiance of the Soviet Union. The enthusiasm was in some cases, however,

tempered by doubts as to the ability of the new regime to bring about economic improvement.

Some meetings called for the ouster of Marshal Rokossowski, General Witaszewski, political commissar of the Polish armed forces--who has since been replaced by General Marian Spychalski, a Gomulka ally--and Wiktor Klosiewicz, head of the Polish trade unions, and other pro-Soviet leaders. A rally at the military technical academy in Warsaw attended by officers, soldiers, students and workers stressed the unbreakable unity of soldiers, the working class and the nation.

The main problem of the regime is to consolidate its support among these people without allowing anti-Soviet sentiments to get out of hand. The regime has already taken steps to win additional support by freeing many of those scheduled to be tried for crimes committed during the Poznan riots. It has made Stefan Ignar, president of the United Peasant Party, a vice premier as a part of the government shake-up on 24 October. In addition, Gomulka has reportedly promised to review the case of Cardinal Wyszynski, under arrest since September 1953

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Military Movements

Substantial elements of five Soviet divisions--three

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mechanized and two tank--moved from their home stations in East Germany to locations along the East German-Polish border. Despite rumors to the contrary, there is no firm evidence that any of these troops crossed into Poland, and they reportedly were returning to their home stations on 23-24 October.

Several Soviet naval vessels which were observed off Gdynia on 22 October departed on the morning of 23 October, and may well have been associated merely with naval exercises held in the Baltic.

There are two Soviet line divisions based in western Poland, and Gomulka's 24 October speech stating that these troops would be back at their bases within two days tends to confirm [redacted]

In his speech to a crowd of several hundred thousand in Warsaw, he stated that as long as NATO bases are maintained in West Germany and as long as a new Wehrmacht is being armed and "revisionsism" with regard to the Polish frontier fomented in West Germany, "the presence of the Soviet army in Germany is in agreement with our highest state interests." The presence of Soviet troops in Poland is closely connected with this

matter, Gomulka added. He also said, "It depends entirely on our opinion whether and how long Soviet specialists are required in our army."

Several thousand youths marched through the streets shouting anti-Soviet and pro-Hungarian slogans after the meeting adjourned, and, while some clashes between the youths and Communist workers resulted, the security police arrived quickly and quieted the situation.

Communist Party Reaction

The East German regime is jittery over the prevailing uneasy situation in the country and intends to use force ruthlessly to stamp out any overt opposition.

East German Communists have also been trying to suppress the full story of the Polish defiance of Moscow. Most newspapers told of Gomulka's election as party first secretary, but did not mention the removal of the pro-Kremlin elements from high party posts. East Berlin police on 22 October reportedly seized all copies of a newspaper containing excerpts from Gomulka's speech soon after they appeared on newsstands. Jamming stations have reportedly been attempting to drown out Western broadcasts concerning the Warsaw upheaval. The postponement until next week of the session of the

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People's Chamber (Volkskammer-parliament) scheduled for 24 October is another indication of the regime's concern over the recent Warsaw developments.

Yugoslavia and Hungary have come out in favor of the changes in Poland, as has the official organ of the American Communist Party. Communist China has taken no public position on the developments, although Gomulka has allegedly received a telegram of congratulations--perhaps for his appointment as party first secretary--from Mao Tse-tung. The Yugoslavs have given heavy and enthusiastic coverage to the developments. On 23 October Borba, official Yugoslav newspaper, said Poland's decision will strengthen socialism in Poland and contribute to the unity of the workers' movement and to the cause of Polish-Soviet co-operation.

Press coverage in Czechoslovakia, Rumania and Bulgaria indicates that these countries have adopted the Soviet line. While most of the Western European parties have remained silent, the French Communist paper L'Humanité has reprinted much of the Soviet line appearing in the Soviet press and has noted additionally that the Polish events have been hailed by the reactionary press throughout the world.

Moscow's Reaction

Although the Soviet leaders had been concerned with the course of events in Poland for many weeks, they apparently misjudged the gravity of the situation until the last minute, which would account for their abrupt and poorly timed Warsaw visit. Failing in their efforts to persuade the Polish rebels

to abandon their extreme policies, the Soviet leaders returned to Moscow early on 20 October. A brief communiqué issued in Moscow later that day revealed that further discussions with a Polish delegation would be held "shortly" in Moscow.

According to the American embassy in Warsaw, Polish leaders apparently are now leaking the story that Gomulka, Ochab and Cyrankiewicz tentatively agreed, following a 22 October telephone conversation with Khrushchev, to fly to Moscow on 26 October.

The same day Pravda printed a bitter condemnation of the trend in Poland. It accused the Polish press of publishing articles shaking the foundation of the Communist system, poisoning the minds of the readers with alien ideology, and calling for the restoration of capitalism. The Polish press and radio responded immediately with scathing attacks on the article, condemning it as an act of interference in internal Polish affairs.

On 23 October the Soviet press published the full text of the 22 October Trybuna Ludu editorial which was extremely favorable to the changes in Poland, criticized American statements as interference in Polish affairs, and stated that the keystone of Polish policy was friendship with the USSR "based on ideological unity of Communist parties, complete equality of states, and full solidarity of our nations." The American embassy in Moscow believes that the USSR is attempting to place the best possible appearance on Polish developments and is leading up to an authoritative statement

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which will publicly approve the new regime.

The Hungarian Uprising

The uprising which broke out in Budapest on the night of 23 October, partially in response to developments in Poland, represents the most violent challenge to Communist authority ever to erupt in Eastern Europe. Dwarfing the East Berlin riots of 1953 and the resurrection in Poznan last June, the Budapest revolt raged out of control at least until the early morning hours of 25 October, and continued on an isolated scale thereafter.

The combined military forces of the USSR and Hungary, using artillery fire, tanks and, in one instance, supporting aircraft, were required to subdue the "rebels," who had occupied industrial installations, apartment houses and public buildings and who had almost succeeded in capturing Radio Budapest. Casualties remain untabulated and unannounced, but preliminary reports indicate a high rate on both sides.

Moscow radio, on the night of 24 October, branded the uprising a "counterrevolutionary revolt" organized by "fascist thugs, the forces of foreign reaction," and claimed the insurrection had "obviously" been in preparation for some time. The Hungarian regime desperately appealed for an end to the "senseless bloodshed" and promised a continuation of democratization and equality with the USSR, once order was restored. The Hungarian leaders reassured the population that the use of Soviet troops was unavoidable, was legal under

terms of the Warsaw pact, and that all Soviet forces would return to their garrisons when the fighting was over.

Origins of the Revolt

The public demonstrations of 23 October began during the morning and were sponsored in large part by various regime-endorsed youth groups which were joined by students and workers. Thousands of demonstrators milled through the streets of Budapest presenting demands for "a truly independent socialist Hungary," the reinstatement of Imre Nagy to the premiership as part of a general shake-up in the party and government, a new economic policy, and the public trial of those responsible for Stalinist "crimes."

By nightfall, however, these peaceful demonstrations were beginning to get out of hand. Into this tense situation moved Erno Gero, party first secretary, who had just returned from Belgrade.

Gero apparently ignited the spark by a remarkably ill-timed radio attack on those Hungarians whose "love of the Soviet Union was in doubt," those "enemies of our people" who were trying to loosen the close friendly ties between Hungary and the USSR. The highly agitated and emotional crowds, reportedly numbering at least 200,000, gave increasing vent to their anti-Russian--and later, anti-Communist--emotions and surged into violent action. During the remainder of the night, public buildings and such symbols of the Soviet "presence" as banners, decorations and a statue of Stalin in the central square were attacked. Hungarian army

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and police personnel enthusiastically participated.

Party Shuffle

An emergency meeting of the party politburo was hastily called, which in turn summoned the full party central committee to meet shortly after midnight. At this point, party "moderates" triumphed and ex-premier Imre Nagy, possibly over Gero's objection, was named premier. Eight of the 16 members of the politburo were dropped and the new body was rounded out at 13 members by the elevation of five party men generally known for their adherence to the moderate program and to national Communism. Gero retained his post, but lost it the following night when he was replaced by the moderate politburo member, Janos Kadar.

Soviet Action

Nagy, who had made an unsuccessful earlier attempt to appease the populace, immediately issued a decree providing death sentences for persons found in possession of arms, or guilty of rebellion. The government declared martial law and a curfew, and the regime, obviously fearing that the very existence of Communism was in danger, requested Soviet troops to assist in restoring order.

At noon of the 24th, Nagy, after scoring the armed attacks, broadcast an amnesty offer, on condition that the rebels lay down their arms by 1600. This

deadline was later extended to 1800, and continued appeals by regime leaders after this time suggested that the regime may have informally extended the amnesty for another day. Nagy, himself, indicated the the regime did not want "reprisals but reconciliation."

By the morning of 25 October, the Hungarian radio carried a report by Minister of Defense Bata that limited fighting continued. Bata called for the liquidation by midday of counter-revolutionary forces in Budapest.

The New Regime

The government and party are now completely dominated by the moderate national Communist forces within the Communist Party. These elements may be presumed to be supported by a preponderant majority of the Hungarian party membership who, in the face of the actual threat to their existence as a party, will keep together in a display of unity.

First Secretary Gero, a doctrinaire whose policies now have been rejected by the new leadership, was replaced by Kadar, apparently during the night of 24 October. Earlier, during the emergency central committee meeting on the night of the 23rd, Gero had retained his position, apparently as the result of a last-minute compromise with the Nagy forces. It is conceivable that the Moscow-oriented Gero may have actually been responsible for the call

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for Soviet troops to assist in quelling the revolt.

Premier Nagy at 1500 on the 25th announced that after order had been restored, the Hungarian government would initiate talks on relations between Hungary and the USSR on the basis of full equality. Such talks would help to restore a measure of the popular support Nagy undoubtedly has lost as a result of his apparent concurrence in Soviet military intervention.

The present government and party leadership of Nagy and Kadar has offered the country a regime which is both moderate and nationalist in orientation, although still thoroughly Communist in policy. The fact that Soviet aid was necessary to maintain even this liberal form of Communism in power may well lessen Soviet willingness to continue supporting--or even tolerating--the new leadership.

Conclusion

The political developments in Poland and Hungary have greatly sharpened the Soviet dilemma in Eastern Europe. If the Soviet leaders settled for

independent national Communist states in Poland and Hungary, the stability of the entire Soviet empire in Eastern Europe would be threatened. The fighting in Hungary may, however, cause them to return to a tougher policy in the Satellites generally and to reassess their apparent decisions to go along with Gomulka in Poland.

The Soviet leaders' decision not to interfere in Poland was presumably based in part on a general reluctance to compromise so drastically and openly their de-Stalinization campaign and "peaceful coexistence" line. This reluctance may already have been diminished by the necessity for direct intervention in Hungary.

Khrushchev's position may have been weakened by these developments. Molotov, and possibly others, opposed Soviet reconciliation with Tito, and military leaders are undoubtedly sensitive to any threat to their supply lines in East Germany. Failure to stem the decline in Soviet power in Eastern Europe could put Khrushchev in serious trouble and bring about another shift in power in the party presidium.

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VIOLENCE IN NORTH AFRICA FOLLOWS FRENCH CAPTURE OF REBEL LEADERS

France's capture on 22 October of five Algerian nationalists, two of whom, Mohamed ben Bella and Mohamed Khider, were ranking exile leaders, has made the French position throughout North Africa more difficult and has further reduced chances for an Algerian settlement. The capture seems more likely to give impetus to the rebellion rather than to halt it.

The arrest of the five, who were traveling from Rabat to Tunis on a plane chartered by the sultan of Morocco,

disrupted the much-heralded conference between Sultan Mohamed ben Youssef and Tunisian premier Habib Bourghiba to co-ordinate their efforts to bring about an Algerian settlement, a meeting which apparently had had Paris' tacit encouragement. The American consul in Algiers reports the belief that an earlier conference between the sultan and the five Algerians in Morocco had gone beyond the understanding between the sultan and Paris and that this may have brought on the decision to seize the Algerians.

The Moroccan and Tunisian governments, as well as the

Arab-Asian bloc at the United Nations, have protested the action as "international piracy." Both governments have asked the United States and Britain to intervene with France. While Paris is concerned over the effect the incident may have on the French position in Morocco and Tunisia, the government has no intention of backing down.

North African Reaction

Bourghiba, who, in the opinion of American ambassador Jones in Tunis, cannot allow the sultan to outdo him in condemning French action, has recalled his ambassador to Paris, but has not broken relations with France. He predicts that guerrilla fighting will be resumed throughout North Africa, but has tried to restrain Tunisian rioters from destroying French property.

Popular reaction in Tunisia and Morocco has been violent and widespread. Some 60 persons, most of them French, have been killed, a French air force officer has been kidnaped, and general strikes have been called in both countries. Ambassador Jones reports that the arrest has transformed the average Tunisian's hitherto rather moderate interest in Algeria into deep concern for the fate of the Algerian leaders, who have become personalities and heroes.

French settlers in Algeria greeted the news of the capture of the rebel leaders with jubilation. The more liberal elements, however, question whether the advantage of the government

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in seizing the exiled leaders is not outweighed by the inevitable violent reaction in the Moslem world and the martyr status now conferred on the five individuals arrested. Algerian Moslem moderates are resentful of the "high-handed French action" and believe it will inevitably strengthen North African Moslem opposition to the French.

In the opinion of the American counselor of embassy

at Rabat, France seems to have made a grievous error which will have a serious effect on its interests and those of the West generally. The moderate, pro-Western policies which have been assiduously followed by the sultan and Bourghiba are likely to undergo some revision as the two leaders, in order to retain their positions, become more responsive to the demands of extremist groups, which have close ties with Cairo and the Arab League. [REDACTED]

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SUEZ DEVELOPMENTS

Hopes are dwindling in London and Paris for a settlement satisfactory to the West. Britain and France insist that Egypt should produce new proposals as a basis for resumed talks, and Egypt, equally adamant, insists on waiting for the talks to begin. UN secretary general Hammarskjold appears to be actively encouraging agreement on a time and place.

Delays in getting the Suez Canal Users' Association (SCUA) into operation have made the British and French pessimistic that it will be an effective device to pressure Egypt. Despite some progress on administrative matters, including appointment of Eyvind Bartels of Denmark as administrator, the major question of how much of the tolls will be paid to Egypt remains to be settled.

The general realization that Algeria is the primary problem for France now appears to have forced the Suez crisis

to a secondary position in French thinking, while at the same time it may have made France even less willing to compromise on any problem with Egypt. The American embassy warns that the situation is still potentially explosive, and that further public airing of any real or supposed French-American differences over Suez could probably cause an even more bitter public outburst than in the past. The National Assembly foreign affairs committee has reportedly taken the position that France has no legal basis for a case against Egypt.

Egypt reacted sharply to the British and French demand to submit specific proposals. Foreign Minister Fawzi termed the demand as "procrastination" and stated that Egyptian proposals were already known and were sufficient to begin negotiations.

The British and French demands, however, probably prompted Nasr's interview with

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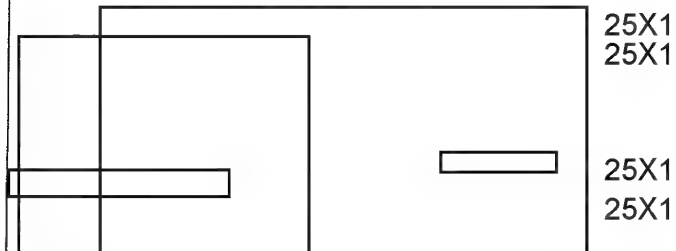
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the United Press on 20 October and the publication of Krishna Menon's plan for an expanded, advisory users' association in Cairo's semiofficial Al Goumhouria. Nasr said he was willing to go personally to Geneva, where Egypt would submit specific proposals. While expressing Egypt's willingness to co-operate with and negotiate with "all users," he rejected negotiations with SCUA, and emphasized that payment of tolls to SCUA would be considered a "hostile activity."

Propaganda treatment of the Suez issue by the USSR was

milder during the week. There has been no mention in the Soviet press of Mikoyan's recommendation that Israeli ships have access to the canal.



According to an Arab press report, the secretary general of the Syrian Foreign Ministry summoned the Soviet ambassador to inquire about Mikoyan's statement. [redacted]

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ARAB-ISRAELI SITUATION

New incidents occurred last week along Israel's borders with Egypt and Lebanon, while the situation remained tense along the Israeli-Jordanian frontier. Apprehension in Tel Aviv over possible future developments has been reflected in the gradual mobilization of Israel's military reserves to bring active strength considerably above the level in August, although still not to the peak reached last spring.

The death of three Israeli soldiers by a mine explosion in the demilitarized zone along the Egyptian border gave Israeli newspapers an opportunity to remind their readers of Prime Minister Ben-Gurion's words

that Egypt remains the "real enemy." This reminder was reinforced by the capture near the Lebanese frontier of a squad of alleged terrorists, said to have been trained and commanded by Egyptians. Egyptian commander in chief Amer's success in obtaining Jordanian adherence to a "joint command" agreement when he visited Amman on 23 October is also likely to recall to Israelis the fact that Egypt's growing military power and influence is the greatest threat to their security.

With the onset of the Suez crisis, Israel apparently felt that Egypt's preoccupation with that problem and with the possibility of British and French

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military action made it safe to ease the state's heavy financial burdens by gradually demobilizing about a third of the 125,000 military forces under arms during the critical period in Arab-Israeli relations last spring. In August, Israel's active strength was down to about 80,000 men. Since the easing of the Suez situation and uncertainty with regard to the future of Jordan, however, a new period of gradual mobilization has begun.

Israel's active strength is now estimated to be at least 100,000, although this figure includes about 25,000 members of the paramilitary Nahal organization, which has for its major task the defense of border settlements.



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PART II

NOTES AND COMMENTS

JORDAN'S LOWER HOUSE ELECTIONS

The elections for Jordan's 40-seat lower house on 21 October strengthened the position of the extreme nationalists, particularly on the left. Anti-Western candidates captured more than half the seats, and the majority of those elected advocate abrogation or modification of the Anglo-Jordanian treaty. Cairo has claimed that the result testifies to the popularity of Egyptian policy, but Nasr's gain cannot be assessed until a new government is formed and starts to carry out a program. The new parliament convened on 25 October, with the old cabinet remaining in a caretaker role.

The moderately anti-West National Socialists are the largest single party, with 11 seats. The party appears to have a good chance of participating in a coalition government with the Constitutionalists and some independents. King Hussain, however, is not required to select the prime minister and cabinet members from the lower house. The pro-Communist "National Bloc" coalition won three seats, giving the extreme left its strongest parliamentary representation in any Arab state. The left-wing, pro-Egyptian Arab Resurrection Party (Baath),

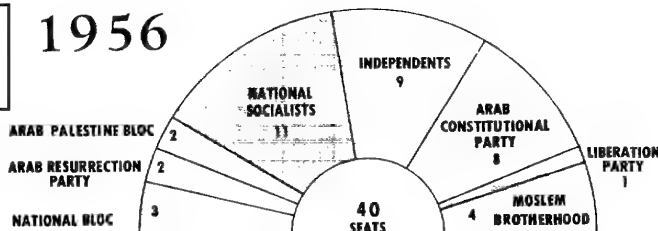
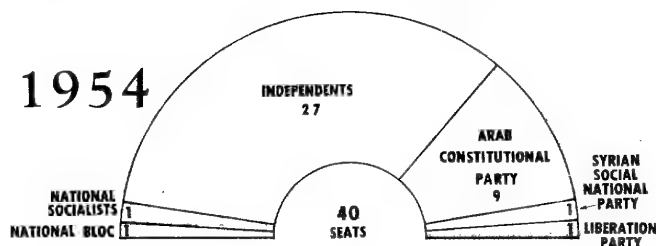
Eight seats are retained by the conservative, pro-monarchical Arab Constitutional Party, which held nine seats in the previous legislature. The far right is represented by four supporters of the Moslem Brotherhood and one of the Liberation Party. The following of these groups includes the fanatically religious, is both anti-West and anti-Nasr, and has frequently co-operated with the Communists, as in the violence against an American missionary hospital in January 1956. Nine independents, most of whom are anti-Western, continue to hold the largest block of seats. There were 27 independents in the previous legislature.

Less than half of the 400,000 Jordanians who were eligible actually voted in the elections,

JORDAN

ELECTIONS

LOWER HOUSE



only two seats. The ultranationalist left is also supported by two members of the Arab Palestine Bloc Party.

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which passed without incident. The elections appear to have been free from direct government interference, which in the 1954 elections provoked disorders which took over 40 lives.

protection and economic aid are two principal guarantees of the state's continued existence.

Evidence of a changing British attitude toward Jordan is indicated by London's recent decision to transfer its ambassador to Amman. While Britain continues to provide Jordan with financial aid totaling about \$34,000,000, London now questions the usefulness to Britain of maintaining Jordan and previously had indicated a desire to revise the Anglo-Jordanian treaty, under which much of the aid is provided.

Although the parliament is predominantly anti-Western, co-operation among the National Socialists, moderate independents and conservatives should be possible, and permit a workable government to be established. Several National Socialist leaders have indicated that the major anti-Western issues, probably including the Anglo-Jordanian treaty, will be dealt with cautiously. Any new Jordanian government, moreover, must face the fact that British

The election was hailed by the Egyptian press and radio as a victory for Arab unity and a defeat for Britain and Iraq. Egypt mounted a major propaganda effort to impress the Jordanian public, and sent General Amer, commander of the Egyptian army and of Arab joint forces, to Amman on 23 October to ratify an Egyptian-Jordanian defense agreement and discuss increased military aid to Jordan.

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STRESSES IN MOLLET COALITION

Developments in Algeria assure Premier Mollet overwhelming non-Communist support for the present. Divergences are apparent, however, among the Socialists, Radical Socialists and ex-Gaullist Social Republicans who comprise the French government coalition. Some concern is developing that Mollet's eventual downfall might lead to Communist participation in the government.

Mendes-France's tactics and his ambiguous position vis-a-vis government policy have aroused concern regarding his

intentions. Fourteen deputies quit the Mendes-France-dominated Radical Socialist Party congress of 11-14 October because of his efforts to solidify personal control over the party and because of the influence of left-wing elements in the party organization. While Mendes-France retained the support of a large majority of the delegates, he reportedly did so largely by stacking the meetings with his own supporters.

Vice Premier Jacques Chaban-Delmas, Mendes-France's close Gaullist ally in the

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PARTY STRENGTH IN LEGISLATURE

INVESTITURE VOTE 31 JAN 1956



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RATIFICATION OF MOSCOW AGREEMENT ASSURED IN JAPAN

The Japanese Diet appears certain to ratify the agreements Prime Minister Hatoyama concluded at Moscow when it meets in a special session tentatively scheduled for mid-November. Acceptance of the accords appears assured not only by the backing of a majority of the ruling Liberal-Democratic Party, but also by the Socialist pledge to support the settlement.

Despite an initial cool reception by the public, most Japanese apparently believe that Hatoyama achieved the best bargain possible. Party and public support seems sufficient to prevent a major schism among the governing Liberal-Democrats.

Japanese business leaders are doubtful that trade with the USSR will expand significantly as a result of the trade protocol, but they hope for increased business with Communist China and other bloc countries.

The Japanese delegation at Moscow was convinced that Soviet support for Japan's UN entry would be unconditional. This belief, however, does not appear to be supported by any categorical Soviet statement. Bulganin said on behalf of all the Soviet delegation that the USSR would support Japanese membership as soon as diplomatic relations

were established; he did not, however, specifically agree not to tie Japan's admission to that of another country, such as Outer Mongolia.

The imminence of diplomatic relations with Moscow has opened the way for restoring relations with the European Satellites. Foreign Minister Shigemitsu stated on 23 October that Japan intends to negotiate with Poland on reopening relations as soon as the present Polish crisis is settled. The restoration of relations with the other Satellites--Hungary and Czechoslovakia have already made approaches--would follow.

The already great pressure for the normalization of relations with Communist China has been increased by the Moscow settlement. A leading Japanese newspaper, Asahi, has stated that Japan's relations with the USSR should be the starting point for developing a new diplomacy in which Communist China is prominent. A more cautious press comment on the reorientation of foreign policy to call for the promotion of "trade, technical and cultural interchanges within the framework of the present diplomatic facts of life," however, probably reflects Japan's course in the near future.

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SINGAPORE

the drive against Communist subversion appears less successful than local government officials have claimed. Opinion among the 800,000 Chinese in the colony has tended to veer against the

government as a result of its antisubversion measures aimed at the Chinese schools in Singapore. The government's closing of two schools, where subversion had been a particular problem, is reportedly viewed as an attack on Chinese

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education and culture. Such an attitude undoubtedly will be encouraged by the pro-Communist People's Action Party, which is spearheading opposition against the government.

The influential Chinese Chamber of Commerce is said to be under pressure from Communist-front groups to protest the government campaign. All shades of political opinion are represented in the chamber, and the

initial response to the suggestion for a protest has been evasive. Should leftist sentiment for a formal censure of the government prevail, however, Chinese opinion throughout the colony would be further alienated. Under such circumstances, Chief Minister Lim may well encounter increasing difficulties in maintaining the support of a large majority of the Legislative Council. [REDACTED]

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PROSPECTS FOR THE NEW HONDURAN JUNTA

The military junta which seized the Honduran government on 21 October consolidated its position quickly, and no immediate challenge to its authority is expected. Spokesmen for all three political parties have pledged to co-operate with the new authorities. The ouster of the unpopular Lozano regime was met with general popular relief.

The junta has promised to transfer power after "a short time" to a civilian government representing "true democracy, peace, and justice." The 7 October constituent assembly election, which the former regime had won by force and fraud, is to be nullified. Political prisoners have been released and the new government may permit the return of Liberal Party exiles.

The members of the junta, General Roque Rodriguez, air force chief Lieutenant Colonel Caraccioli, and Roberto Galvez, are not known for personal political ambitions and probably acted mainly on patriotic motives. The latter two, who are young men educated in the United States, are notably friendly to this country, and General Rodriguez

is believed to share their sentiments. Ex-president Juan Manuel Galvez, father of Roberto Galvez, retains the loyalty of top army and air force officers and will probably be an important behind-the-scenes figure.

The cabinet chosen by the junta is unusually capable and predominantly civilian. It contains representatives of all political parties and factions except followers of Abraham Williams. Williams, a perennial presidential aspirant who is thoroughly distrusted by many leading political and military elements and probably lacks significant popular support, had expected to inherit power in the disintegrating Lozano regime. [REDACTED]

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[REDACTED] Williams continues under house arrest.

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Possible pitfalls for the junta include the danger of disagreement among its members, the disgruntlement of other officers, including the political-minded Colonel Armando Velasquez, who may aspire to head the regime, and possible plotting by followers of Williams.

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In attempting to oversee the return to constitutional government, which has been in abeyance for almost two years, the junta will face the same dilemma which bedeviled its predecessor--a free election would probably mean victory

for the Liberal Party. The Liberals, out of power for over 20 years, are distrusted by many entrenched political and military figures and there is some evidence of Communist infiltration in the party.

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MOUNTING POLITICAL TENSION
IN BOLIVIA

Mounting tension between the right and left wings of the governing Nationalist Revolutionary Movement (MNR) in Bolivia reportedly caused the riots of 22 September. This tension has led to right-wing allegations of increasing Communist influence in the government and now threatens the vital economic stabilization plan.

Although the "hunger march" of 22 September was organized and led by the opposition Bolivian Socialist Falange, the rioting and burning which accompanied the march were reportedly instigated by left-wing elements of the MNR, with Communists probably also involved. The reported left-wing objective was to end the policy of conciliation toward the Falange, seemingly fulfilled by the subsequent exile of its leaders.

The most recent incident between the two MNR factions was the release to the press on 19 October, apparently by leftist Vice President Chavez, of a list of names for Bolivia's new UN delegation which included three which are affiliated with the Communist party or are at least sympathizers. Foreign Minister Barrau, who had not been consulted, told the American

ambassador he and two other right-wing cabinet members had tendered their resignations in protest. Barrau said Communist influence in the government was being increased through the dupes of an able but unknown Communist leader.

Withdrawal of the resignations and revision of the UN appointments now seem likely, but the incident suggests a lack of effective leadership by moderate President Siles and irresponsibility, at best, on the part of Vice President Chavez.

Furthermore, Communist influence may be increasing in the Bolivian Workers Confederation, the left-wing power base, although no known Communist is in the top echelon of leadership. However, confederation leader Juan Lechin, often accused of being a Communist, has at least tentatively resigned from the Senate presidency and left for a two-week visit to Venezuela on 19 October. Lechin's resignation and his absence from Bolivia may heighten general uneasiness, since he and the more moderate ex-president Paz, who is also abroad, have for several years been considered Bolivia's most powerful figures.

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An acute food shortage in La Paz and rapid depreciation of the currency highlight the critical economic situation which underlies the political tensions. A Monetary Stabilization Council, with an American adviser, has already been constituted and is considering

far-reaching economic reforms. The program would, however, require politically unpalatable measures, and left-wing support--essential for its initiation--is now threatened by the increasing friction between the left and right. [REDACTED]

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ITALIAN CHRISTIAN DEMOCRATIC PARTY CONGRESS

The Christian Democratic Party in Italy ended its national congress on 18 October by confirming its support for the present center coalition and reaffirming its position that the Nenni Socialists are not acceptable partners unless they break completely with the Communists. The decisions of the congress should strengthen the government's chances for getting crucial legislation approved.

The congress pledged the party to continue collaboration with other democratic parties, but gave pointed warning to the Nenni Socialists to break with their Communist allies if they sincerely desire to co-operate with the government. Fanfani charged that the consultation pact of 5 October between the Communists and Nenni Socialists was considered even more pro-Communist than the 1946 unity-of-action pact, and he admonished the Democratic Socialists that "consulters of the Communists" risk losing the characteristics which the Christian Democrats appreciate in their allies.

The congress called for continued Italian political and economic co-operation within NATO's framework, and stressed European unification. It advocated development and implementation of the Vanoni plan for economic rehabilitation, completion of the development and industrialization of southern Italy, and a "courageous" labor policy.

Fanfani seems to have consolidated his control over the party organization, and the congress gave the impression that there is substantial unity within the party. Moreover, the solidarity of the government coalition does not seem to have been affected, since Fanfani's opening speech was generally well received by leaders of the other center parties. These developments should improve the prospects of Premier Segni's cabinet obtaining parliamentary approval of controversial legislation which is essential to further progress toward economic rehabilitation.

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CYPRUS ISSUE AND GREEK POLITICS

Prime Minister Karamanlis' decision to head the Greek delegation at the UN General Assembly next month indicates he expects the assembly to take action favorable to Greece on the Cyprus issue. He also seems confident that his government can maintain its political position, despite the recent increase in political maneuvering.

Disaffection has reportedly been growing within Karamanlis' National Radical Union (ERE). Karamanlis' rightist and center party opponents have recently claimed increasing numbers of defectors from the ERE, and even members of Karamanlis' cabinet have been reported saying the king has lost confidence in his prime minister. However, George Papandreou, Liberal Party chief and leader of the popular front coalition in the last Greek elections, is reported to have stated on 22 October that the king had abandoned any idea of replacing Karamanlis. A "manifesto" to the Greek government issued on 17 October by "Dighenis," leader of the Cypriot underground EOKA, has heightened political tension in Athens. Dighenis called for a "national front of the entire (Greek) nation," and the opposition has been

using this to support its demands for a coalition government representing all political parties. He further demanded an immediate plebiscite on self-determination, while Karamanlis and Makarios have agreed to accept self-government with provision for eventual self-determination.

Dighenis, who is George Grivas, a Cypriot-born retired Greek army colonel, has become a national Greek hero and exercises a potent political influence in Greece. The power of Greek-Cypriot leaders was demonstrated last spring when the press organ of the governing council of the Cyprus Church attacked the Greek foreign minister's handling of the Cyprus issue and eventually forced the minister's resignation.

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SPAIN

The Spanish Falange is making a determined effort to attract broader popular support and to assure itself a pre-dominant position when Generalissimo Franco dies or withdraws from office for other reasons. This will probably antagonize other surviving power groups and increase unrest among opponents of the regime.

The Falange's power would be greatly strengthened by passage of two new laws which have been prepared by a special Falange committee at the direction of Franco as head of the party. They were forwarded on 29 September to the party's National Council prior to submission to Franco and the national legislature,

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the Cortes. One law would perpetuate the Falange's monopoly over political activity by authorizing its National Council to review decrees and also legislation drafted by the Cortes. It reaffirms Falangist control of the syndicates representing labor, management, and the government, and such groups as the youth front, and gives the Falange responsibility for "the political orientation of public opinion."

The other draft law provides for automatic separation of the positions of chief of state and premier on Franco's death or incapacitation. This law would give the Falange secretary general an important voice in selecting the premier, who would be answerable to the Falange National Council.

In an effort to turn the Falange into a truly national movement, Franco decreed last June the establishment of party branches in all small towns. The organization of the party-controlled Spanish University Students' Syndicate is to be broadened to make it more attractive to anti-Falangist students.

Numerous shake-ups in major Falange posts since the Madrid student disorders in February have brought to the fore more dynamic leaders, who

are dedicated to pushing the party's social welfare program. These new leaders oppose a genuine liberalization of the country's political institutions, but also oppose an authoritarian monarchy. On foreign affairs, they are xenophobic. Some Falangist leaders have manifested sensitivity over the presence of American military personnel in Spain.

Labor has been a special Falange target, and Labor Minister Giron is emphasizing the need for profit-sharing, worker participation in management, and other measures designed to raise labor's standard of living. There are indications that the government may give in to pressure for substantial wage increases in the near future. This, if accompanied by adequate price controls, would improve the Falange's prospects for attracting mass worker support through the syndicates, which it controls.

A more influential Falange, however, would further antagonize the Catholic Church, the landowning and financial interests, and particularly the army, the main prop of the regime. It would also likely further embitter the monarchists, 25X1 students and clandestine opposition parties.

MORE PHILIPPINE HUKS RELEASED ON BAIL

The Philippine government's anti-Communist campaign suffered a further legal setback last week with the granting of bail to some 43 former Huk rebels by the court of Pampanga Province. The court's decision

was based on a precedent set last July when the Supreme Court, on a legal technicality, granted bail and a new trial to a prominent Communist leader had been sentenced to life imprisonment. Under the

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circumstances, the prospects are that at least another hundred imprisoned Huks will be given temporary freedom in the near future.

Although the Supreme Court has agreed to reconsider its July decision, there appears to be little hope it will reverse its position. Moreover, the solicitor general has continued publicly to criticize the court for living in an "ivory tower," thereby generating criticism of the Magsaysay administration for interfering in judicial affairs.

Other efforts of government leaders to bring about a reversal of the Supreme Court's action have provoked heavy congressional criticism. Magsaysay's hasty attempt to force passage of a bill tightening the penalty for rebellion through a special congressional session met overwhelming hostility, and was summarily pigeon-holed. Threats of top military officials to resign over the issue only served to encourage congressional and press attacks alleging undue military influence over civil affairs.

Magsaysay has commented that he fears that as many as 1,000 imprisoned Huks will be released and that such a development would return the country to the situation of 1949. There is, however, little likelihood the released Huks will jump bail or attempt to revive the lagging Communist rebellion.

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The release of large numbers of confirmed Communists probably including members of the politburo, would nevertheless boost Communist morale and provide more effective direction of the Communists' subversive activities. The Philippine public is far less alert to the threat of long-range covert tactics than to that of open rebellion.

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**COMMUNIST CHINA REINTRODUCES
TEACHING OF ENGLISH**

Peiping's recent announcement that English will be taught this year in senior middle schools wherever teachers are available marks a break with the policy of almost exclusive dependence on Russian as a second language.

[redacted] a revival of English instruction would open up channels for Western influence on Chinese youth. The Peiping authorities, however, apparently feel confident that Communist indoctrination will continue to immunize Chinese students against influences hostile to the regime's interests.

For six years Russian has been the only foreign language taught below the university level in China.

Peiping's decision reflects the present emphasis in Communist China on the acquisition of knowledge from all sources in order to reach "world scientific levels" by the end of the regime's 12-year plan for scientific development in 1967. Chou En-lai told scientists last spring that the advanced science and techniques of capitalist countries should

be carefully studied even though Communist China is opposed to their political and social systems. At a party central committee meeting of intellectuals in January, Chou said that although China's backwardness made it essential to rely on Soviet achievements in science, China should not remain forever in a "state of dependence and imitation" of the Soviet Union.

In addition to the scientific and technical benefits which China may expect to gain from English-language publications, Peiping seems increasingly cognizant of the usefulness of English in the conduct of its foreign relations.

Chou En-lai has acknowledged the importance of English as an international language, and both he and Mao Tse-tung are taking English lessons [redacted]

[redacted] which recently visited China reported that Chou spoke to them in English. In past years he made a point of speaking Chinese in contacts with foreigners, despite the fact that he had a fair command of English.

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REVIEW OF CHINA TRADE CONTROLS
SCHEDULED FOR DECEMBER

A full review of China trade controls by the Consultative Group is scheduled for December. Although the British COCOM delegate hinted about 12 October that his government favored postponement, a Foreign Office spokesman on 15 October gave no indication that Britain wanted such a delay. The Foreign Office has stated that it feels the Consultative Group

session cannot be continually postponed, but is opposed to the meeting if results are likely to be unsatisfactory. The Foreign Office takes the view that to ensure worthwhile results, national proposals, primarily on China trade, should be aired in bilateral and joint meetings as soon as possible.

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THE ECONOMIC SITUATION IN CEYLON

The government of Ceylon, which last spring announced that it favored a socialistic welfare state program, has since found it necessary to adopt a much more moderate policy. In the next few months, the government may have to choose between facing heavy opposition criticism, mainly from the left, for not carrying out its promises or attempting to do so and incurring considerable financial and economic risks.

When Prime Minister Bandaranaike took office last April, Ceylon had experienced two favorable years. The island's gross national product had increased by 6 percent in 1954 and by 11 percent in 1955. Rice and tea production had risen markedly in both years and coconut production had risen 10 percent in 1955.

The balance of payments position, which recorded deficits in 1952 and 1953, had shown surpluses of roughly \$49,000,000 in 1954 and \$59,000,000 in 1955. The government's budgets for fiscal 1954 and 1955 had shown surpluses, and that for 1956 a small deficit. The previous government under Sir John Kotelawala had conducted its financial affairs conservatively, and the cost of living had remained steady at the 1952 level for the succeeding three years.

Election Promises

On taking over from his predecessor, however, Bandaranaike was committed to major economic reforms. These included state operation of all key industries, progressive nationalization of all essential industries--including foreign-owned plantations, banking and insurance, and transport--placing trade increasingly in Ceylonese hands, full employment, expansion of land

utilization schemes, and various social benefits.

The new government almost immediately found itself in economic difficulties. The worst drought in 20 years had ruined spring rice crops in many areas and adversely affected summer crops as well, thus cutting production from about 510,000 long tons in 1955 to an estimated 370,000 tons in 1956. Although carry-over stocks and normal import agreements are expected to cover the situation adequately, reserves for 1957 may be substantially reduced.

Price declines are expected to affect adversely profits from the sale of tea, rubber, and coconuts. At the end of August, Ceylon's favorable balance of trade for 1956 was only \$20,300,000 as compared to \$58,400,000 in the first eight months of 1955. The budget adopted for fiscal 1957 anticipates a deficit almost twice as large as that for 1956.

The government also found that various welfare and nationalization measures, implemented or intended, would prove to be expensive. Promised reductions in the price of rice and sugar, and restoration of a free school lunch program, cost about \$21,000,000. The lowered price of rice led to increased consumption, which disrupted the import program and forced Ceylon to seek an emergency loan of 12,000 tons of rice from Soviet stocks in Burma in September.

It also seemed likely that nationalization of foreign-owned estates would probably exhaust Ceylon's present external assets and that nationalization of transportation would cost millions of dollars. Furthermore, such politically

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advisable measures as eliminating the British from the naval base at Trincomalee raised the possibility of unemployment for thousands of Tamil workers employed there.

In addition, frequent strikes in Colombo harbor during 1956 have tied up shipping and caused many vessels to bypass Ceylon. Strikes in many of Ceylon's plantations have proved embarrassing. Finally, congestion in Burmese harbors led to delays in rice shipments and to a brief supply crisis in Ceylon in September.

Expediency Policy

Faced with the problem either of increasing the national budget and running the risk of inflation in order to achieve announced economic goals or of maintaining a balanced budget by limiting imports and reducing economic development expenditures, the government has chosen to follow a policy designed to produce the minimum development consistent with political needs.

It has cut prices of rice and sugar, but much less than desired by some. Nationalization of large tea, rubber, and coconut estates has been given up as impractical at present. Nationalization of transportation

has been confined to bus lines, which are now scheduled to become government property on 1 March 1957. There has been continuing emphasis on placing trade in Ceylonese hands, but this has proceeded at a relatively slow pace.

Bandaranaike's first national budget is a moderate one. The planning commission, established in September to revise the \$531,000,000 six-year development plan (1955-60) presented by Kotelawala's government in July 1955, seems likely to work slowly. Bandaranaike's statement on 3 October that his government had decided on certain ad hoc measures to alleviate unemployment indicated no firm determination to solve the problem, and no drastic action is apparently contemplated.

Trade and Aid

Recognizing his inability to take dramatic steps to improve the economy, Bandaranaike seems to have been attempting to increase Ceylon's stability by expanding its trade and foreign aid, thus minimizing the effects of price declines in one or more of the country's major exports. His tactics apparently are to add to the list of Ceylon's suppliers and markets and to seek aid from as many new

CEYLON'S TRADE WITH THE SINO-SOVIET BLOC

(THOUSANDS OF US DOLLARS)

	1950		1951		1952		1953		1954		1955	
	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT
CZECHOSLOVAKIA	398	-	1069	5	733	829	762	589	481	273	624	22
HUNGARY	45	-	57	-	105	-	97	8	67	-	58	-
POLAND	10	67	9	889	45	1595	715	68	58	76	769	302
USSR	404	-	329	-	263	501	14	-	402	-	128	-
EAST GERMANY	-	-	-	-	-	-	-	-	56	-	32	-
TOTAL SOVIET BLOC	857	67	1464	894	1146	2925	1588	665	1064	349	1611	324
COMMUNIST CHINA	602	24	892	7558	6896	25950	43899	50865	32018	46529	16785	25479
TOTAL SINO-SOVIET BLOC	1459	91	2356	8452	8042	28875	45487	51530	33082	46878	18396	25803

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countries as possible. Since many Western and commonwealth nations are already important traders, Bandaranaike's efforts are leading him to deal increasingly with Communist countries. Ceylon's trade with the Soviet bloc since 1950 had been small and erratic and had shown no significant rising trend. Its rice-rubber trade with Communist China had been profitable, though it declined in value after 1953.

The government is preparing to negotiate the last annual contract under a five-year, rice-rubber agreement with Communist China about November. During 1956, it has encouraged visits from Satellite trade missions and has attempted to expand trade relations with Albania, Bulgaria, Czechoslovakia, Hungary, Poland, and Yugoslavia. The government, however, keeps a close watch over trade with Sino-Soviet bloc nations through licensing and other control measures.

In October, Ceylon announced a new tripartite agreement, whereby reopening of tea trade with Egypt after a lapse of six months is made possible by Japan's willingness to import Egyptian cotton and pay Ceylon in sterling for its tea exports to Egypt.

In the foreign aid field, Colombo plan and United Nations programs were augmented by \$5,000,000 of American aid, bringing Ceylon's total aid receipts to about \$9,500,000 annually. On 16 August, Ceylon signed an economic aid agreement with Czechoslovakia, its first with a Communist country. This provided for Czech capital goods, including transportation equipment and workshops, to be given in return for tea, rubber, and coconuts. Subsequently, on

2 October, this was "balanced" by signature of another agreement with West Germany, involving equipment for small-scale industries, technical experts, and scholarships for Ceylonese students.

Opposition

The opposition, which to date has kept up a running fire against, but has not strongly attacked, Bandaranaike's economic policies, is apparently merely biding its time, awaiting a favorable moment to strike hard. In August, both the United National Party of Kotelawala and the leftist Nava Lanka Sama Samaja Party criticized the government for not lowering rice prices further, for not adopting a socialist budget, for favoring communalism, and for failing to cope satisfactorily with economic problems and unemployment.

On 29 August, leftist members of Bandaranaike's own party formed an organization called the Forward Bloc to spur members of the cabinet toward speedy implementation of reform programs. The Tamil population of northern Ceylon has also been reported setting up its own program for economic development, apparently assuming that the government is not prepared to help the 2,000,000 individuals of Indian origin in Ceylon.

Politically, Bandaranaike has shown himself fairly adroit at avoiding major departures from past policy while at the same time taking lesser actions providing evidence of his intention gradually to "socialize" Ceylon. Economically, he seems to have less maneuverability, and he might be considerably embarrassed if in the next few months the opposition publicly compares Ceylon's present economic position with that of the last two years.

(Concurred in by OSR)

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